HEALTH

0530 California Health and Human Services Agency

The California Health and Human Services Agency (CHHS Agency) administers the state's health, social services, rehabilitative and employment programs. The Secretary for the CHHS Agency advises the Governor on major policy and program matters and oversees the operation of the agency's departments. The purview of the CHHS Agency includes: (1) the departments of Aging, Alcohol and Drugs, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, and Social Services; (2) the Health and Human Services Data Center; (3) the Office of Statewide Health Planning and Development; (4) the Managed Risk Medical Insurance Board; and (5) the Emergency Medical Services Authority.

Through the Budget Act of 2001 and SB 456 (Speier), Statutes of 2001, the Office of Health Insurance Portability & Accountability Act (HIPAA) Implementation was created. This office resides within the CHHS Agency.

The Office of HIPAA Implementation has statewide responsibility for the implementation of the federal HIPAA. The portion of HIPAA dealing with administrative simplification requires all billing and other electronic data transmissions to be standardized, as well as establishing new standards for the confidentiality and security of this information. The office was established to direct and monitor this process.

Summary of Funding

The budget proposes total expenditures of $230.1 million ($4.9 million General Fund). Of this total amount, (1) $3.5 million (General Fund) and 27 positions are proposed for the Secretary's Office, (2) $3.6 million and ten positions are for the Office of HIPAA Implementation, and (3) $223 million (CA Health and Human Services Data Center Revolving Fund) and 177 positions are proposed to be transferred to the CHHS Agency to establish a new Office of System Integration.

Through the Budget Act of 2004, the Secretary for the CHHS Agency received 14 new positions and an augmentation of $1.8 million (General Fund), or an increase of over 100 percent over the Budget Act of 2003. This adjustment is reflected in the base level funding for 2005-06. The Office of HIPPA reflects minor adjustments.

A significant policy change of establishing a new Office of System Integration at the agency level is proposed. Due to this proposed shift, the CHHS Agency budget reflects an increase of $223 million (CA Health and Human Services Agency Data Center Revolving Fund) and 199 positions as noted below.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Secretary for Health & Human Services	$3,504	$3,507	$3	--
Office of HIPAA	$3,552	$3,608	$56	1.5
Office of System Integration	NA	$222,974	$222,974	100
Funding Source				
General Fund	$4,884	$4,933	$49	1.0
Managed Care Fund	$364	$364	--	--
CA Health & Human Services Data Revolving Fund	--	$222,974	$222,974	100
Reimbursements	$1,808	$1,818	$10	0.5
Total, Health & Human Services Agency	$7,056	$228,271	$223,033	31.6

Issue for the CHHS Agency

New Office of System Integration. A significant policy change of establishing a new Office of System Integration at the agency level is proposed for increased expenditures of $223 million (CA Health and Human Services Agency Data Center Revolving Fund) and 199 positions. Currently, the Health and Human Services Agency Data Center provides consolidated electronic data processing and project management for departments within the CHHS Agency. However the budget proposes to bifurcate these responsibilities by shifting certain systems management functions to the CHHS Agency, and shifting other operations functions to the Department of Technology Services. This proposed transfer is discussed further under section 4130 Health and Human Services Agency Data Center, below.

4120 Emergency Medical Services Authority

The overall responsibilities and goals of the Emergency Medical Services Authority (EMS Authority) are to: (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; (2) review and approve local emergency medical service plans; (3) coordinate medical and hospital disaster preparedness and response; (4) establish standards for the education, training and licensing of specified emergency medical care personnel; (5) establish standards for designating and monitoring poison control centers; (6) license paramedics and conduct disciplinary investigations as necessary; (7) develop standards for pediatric first aid and CPR training programs for child care providers; and (8) develop standards for emergency medical dispatcher training for the "911" emergency telephone system.

Summary of Funding

The budget proposes total expenditures of $22 million ($10.8 million General Fund) for the EMS Authority. This reflects a net decrease of $1.1 million primarily due to a decrease in federal fund support.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Source				
Emergency Medical Services	$23,159	$22,036	($1,123)	-4.8
Unallocated Reduction	--	($12)		NA
Funding Source				
General Fund	$10,778	$10,777	1	--
Federal Funds	$3,808	$2,734	($1,074)	-28.2
Reimbursements	$7,097	$6,931	($166)	-2.3
Other Funds	$1,476	$1,594	$118	8.0
Total, Emergency Medical Services	$23,159	$22,036	($1,123)	-4.8

Summary of Governor's Proposed Reductions and Augmentations

- **Bioterrorism Response Preparedness.** The EMS Authority seeks to continue appropriation authority of $6 million (federal Health Resources and Services Administration grant funds) to fund 6 limited-term positions set to expire in 2004 and provide $5.2 million in local assistance. These funds are part of the federal grant funds established by Congress after the events of 9/11/01. These resources are to be used to continue the development and implementation of a bioterrorism response system for the state, including expanding existing hospital communication systems as well as establishing linkages with hospitals in dispatch centers and ambulance providers. In essence, these funds are intended to enhance the readiness of the hospital and emergency medical services systems to deal with large numbers of casualties and communication system capacities.

- **Terrorism Response Training.** An increase of $270,000 (federal funds) is proposed to continue a one-year limited-term state position and to contract for the development of an electronic management system to track training courses completed by emergency medical system personnel. The state position will be used to review existing and proposed terrorism response medical training programs for emergency medical personnel and implement state terrorism response training standards.

- **Statewide Terrorism Threat Assessment Center--Medical Terrorism Assessment.** An increase of $311,000 (federal funds) is requested to fund two positions, overtime pay, and consultant expenditures to develop, implement and operate a coordinated medical terrorism monitoring and analysis program within the state. This request is part of a broader proposal related to the establishment of a new Statewide Terrorism Threat Assessment Center.

- **Child Care Training.** In order to provide preventive health and safety training program reviews of child care centers as required by existing law, the EMS Authority is proposing an increase of $77,000 (Emergency Medical Services Training Program Approval Fund) to fund a position to facilitate reviews and training program renewals.

4250 California Children and Families Commission

The California Children and Families First Act of 1998 created this commission effective December 1998. The Commission consists of nine members—seven voting members and two ex-officio members. Three of the members are appointed by the Governor, two by the Senate Rules Committee, and two by the Speaker of the Assembly.

The commission is responsible for the implementation of comprehensive and integrated solutions to provide information and services promoting, supporting, and improving the early childhood development of children through the age of five. These solutions are to be provided either directly by the commission or through the efforts of the local county commissions.

Funding is provided through a 50-cent-per-package surtax on cigarettes, as of January 1, 1999, and an equivalent surtax on other tobacco-related products, as of July 1, 1999. These revenues are deposited in the California Children and Families Trust Fund. As required by the proposition, a portion of these revenues are transferred to the Department of Health Services to backfill for specified decreases in Proposition 99 funds (i.e., Cigarette and Tobacco Product Surtax Funds).

Summary of Funding

The budget proposes total expenditures of $563.4 million (special trust funds) for a decrease of $172.8 million over the revised current year. This reduction is due to a decline in revenues and a decline in carry-over funds which were available and have since been expended.

The California Children and Families Commission funds must be used to supplement, not supplant, existing funds. The funds are distributed across accounts as required by Proposition 10. The funds are continuously appropriated pursuant to Section 30131.3 of the Revenue and Taxation Code and as such, are not subject to an annual appropriation through the Budget Act.

The commission began funding initiatives using the various accounts in January 2000. These projects address recognized needs related to children's health care, child care and development, and family literacy.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Administrative Functions	$5,761	$5,574	($187)	3.2
Local Assistance—Counties	$730,475	$557,858	($172,617)	23.6
Funding Source				
Counties Children & Families Account	$469,919	$446,546	($23,373)	5.0
Mass Media Communications Account	$51,113	$34,446	($16,667)	32.6
Education Account	$79,820	$29,371	($50,449)	63.2
Child Care Account	$50,097	$17,723	($32,374)	64.6
Research & Development Account	$55,767	$17,923	($37,844)	67.8
Administration Account	$5,761	$5,574	($187)	3.2
Unallocated Account	$23,759	$11,849	($11,910)	50.1
Total Expenditures	$736,236	$563,432	($172,804)	23.5

4260 Department of Health Services

The goals of the Department of Health Services (DHS) are to: (1) promote an environment that contributes to human health and well-being; (2) ensure the availability of equal access to comprehensive health services using public and private resources; (3) emphasize prevention-oriented health care programs; (4) promote the development of knowledge concerning the causes and cures of illness; and (5) ensure economic expenditure of public funds to serve those persons with the greatest health care needs. These goals are carried out through three key programmatic areas, including the Medi-Cal Program, Childrens Medical Services, and Public and Environmental Health.

The budget proposes expenditures of $37.6 billion ($13.6 billion General Fund), or a *net* increase of $280.1 million ($1.019 billion General Fund) over the revised 2004-05 budget. Of the total budget amount, $36.6 billion ($13.387 billion General Fund) is for local assistance.

The Governor proposes state support expenditures of $987.3 million ($264.2 million General Fund) which would support 6,069 authorized positions for an increase of 327 new positions over the revised current-year. Even though the Governor has imposed an unallocated reduction of $11.5 million (General Fund) on the department for 2005-06, expenditures for state support are proposed to grow by $10.5 million over the revised current-year

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Source				
Public & Environmental Health	$862,717	$887,587	$24,870	2.9
Medical Care Services	$33,848,236	$34,067,010	$218,774	0.6
County Health Services	$52,867	$52,867	--	--
Primary Care & Family Health	$1,533,989	$1,556,728	$22,739	1.5
State Mandates	$4	$3,761	$3,757	939
State Administration & Operations	$976,806	$987,341	$10,535	1.0
Totals, by Program Source	$37,274,619	$37,555,294	$280,675	0.8
Funding Source				
General Fund	$12,631,405	$13,651,257	$1,019,852	8.1
Federal Funds	$21,417,896	$20,980,414	($437,482)	-2.0
Special Funds & Reimbursements	$3,225,318	$2,923,623	($301,695)	-9.4
Totals, by Fund	$37,274,619	$37,555,294	$280,675	0.8

Highlights for the Medi-Cal Program

A. Summary of Funding and Enrollment.

The Governor proposes total expenditures of $34.1 billion ($12.9 billion General Fund) which reflects a General Fund increase of $981.7 million, or 8.2 percent above the revised current-year budget. The General Fund increase primarily reflects (1) increases in caseload and utilization for aged, blind and disabled individuals; (2) increases in federal Medicare premiums for which the state pays; (3) implementation of quality improvement fees and cost-of-living adjustments for nursing homes; (4) elimination of 2004-05 one-time savings; (5) changes in assumptions used for estimating anti-fraud savings; and (6) slower implementation of prior year cost containment activities.

California continues to have the lowest average cost-per-enrollee in the nation--$4,605 per enrollee versus a national average of $5,869 per enrollee (based on recent 2003 statistics).

Medi-Cal provides health insurance coverage to about 18 percent of Californians. Average monthly caseload is anticipated to increase in 2005-06 by about 170,500, or 2.6 percent, for a total of 6.8 million eligibles. Of the total Medi-Cal eligibles about 38.7 percent, or 2.6 million people, are categorically-linked to Medi-Cal through enrollment in public cash grant assistance programs (i.e., SSI/SSP or CalWORKs).

Almost all Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women.

Generally, Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship, and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

B. Summary of Administration's Medi-Cal Redesign Proposal.

Key Components to Proposal. The Governor's Medi-Cal Redesign consists of six components, as shown in the table below. The proposal would require considerable state statutory change, as well as approval by the federal Centers for Medicare and Medicaid (CMS) for certain components that require a federal Waiver, such as the hospital finance restructuring component and the premium proposal.

The underlying fiscal assumptions offered by the Administration for each of these components are evolving with critical questions yet to be fully answered, particularly regarding the restructuring of hospital financing, expansion of Medi-Cal Managed Care, and the premium proposal. (Details regarding the six components are discussed further, below).

Proposed Medi-Cal Redesign
2005-06 to 2008-09 General Fund Impact
(State Support & Local Assistance Amounts)
(Dollars in Thousands)

Proposed Redesign Component	2005-06	2006-07	2007-08	2008-09	Total
1. Medi-Cal Managed Care Expansion	$3,412	$40,098	$54,653	($85,487)	$12,675
2. Restructuring Hospital Financing	686	686	686	686	2,744
3. Capitating Dental Services	(24,843)	(25,325)	(25,325)	(25,325)	(100,818)
4. New Medi-Cal Premiums	6,847	(4,903)	(22,050)	(22,050)	(42,155)
5. Single Point of Entry Changes	2,126	(7,097)	(7,097)	(7,097)	(20,315)
6. County Performance Monitoring Standards	612	2,712	2,712	2,712	8,748
Totals	**($11,160)**	**$6,171**	**$3,579**	**($136,561)**	**($139,121)**

Need for Federal Funding Assistance for Hospitals. Federal Medicaid financing, provided through the state's Disproportionate Share Hospital (DSH) Program (SB 855 funds), the Emergency Services and Supplemental Payments Program (SB 1255 funds), and Graduate Medical Teaching Program, is an essential ingredient to California's overall health care system.

Presently, these supplemental federal fund programs operate through an existing Selective Provider Contract Waiver and "intergovernmental transfer" (IGT) process. The Administration maintains that this existing system must be completely restructured due to continued concerns expressed by the federal CMS.

Discussions with the federal CMS and the Administration have been ongoing since June 2004 yet it is still unknown what the federal funding commitment California may obtain for its safety net hospitals. Specifically the Administration is seeking an increase of $700 million, above the existing level of supplemental federal funding (about $2 billion), over a five-year period (Waiver timeframe).

The state did receive a six-month federal extension for the Selective Provider Contract Waiver and existing IGT process. This extension will continue the existing federal funding stream only until June 30, 2005. Though the Administration contends the federal CMS may not approve another extension after this date, the federal CMS has in the past provided extensions for other Medicaid Waivers that the state operates, if the state is working towards a solution.

The outcomes from the negotiations with the federal CMS on the hospital finance restructuring component are truly the linchpin of the Medi-Cal Redesign. If the Administration cannot obtain agreement by the federal CMS on the following pieces of this particular puzzle, then expansion of the aged, blind and disabled into managed care arrangements would not be fiscally plausible.

Specifically, the core aspects of the discussion are:

- Obtain federal CMS agreement on calculating a more favorable "Upper Payment Limit" (UPL) for California so that, among other things, certain managed care services can be counted towards supplemental federal payments;

- Ensure federal fund growth over the next five-years (an 1115 wavier would be for five-years) for supplemental hospital funding through the use of an appropriate indices; and

- Obtain agreement on the proposed new methodology for calculating "certified public expenditures", in lieu of using the existing IGT method for obtaining supplemental federal funds. This would include the recognition of expenditures for indigent health care. This is needed in order to verify that sufficient funds could indeed be generated and to mitigate any potential federal audit exceptions for which hospitals or counties might be liable.

Even if the federal CMS were to favorably respond to the state, considerable analysis and re-crafting of existing systems would need to occur in order to effectuate the proposed changes. Utilization of a "certified public expenditures" approach would require almost a wholesale change to how hospitals account for costs currently. Twenty-one hospitals (public hospitals) would be directly responsible for the certified public expenditure accounting and calculation. How the supplemental federal funds are to be distributed across the 240 or so hospitals currently receiving these federal funds would also have to be determined. Many hospital operational details would have to be worked out.

Realistically it is very unlikely with all of the myriad of issues, those with the federal CMS as well as with the hospital industry, that a July 1, 2005 transition date from the existing process to a new 1115 Waiver could be achieved.

Medi-Cal Managed Care Expansion. Currently, some form of Medi-Cal Managed Care (Two-Plan Model, Geographic Managed Care, or County Organized Health System (COHS)) is in 22 counties and serves about 3.2 million Medi-Cal enrollees, primarily families and children. All of these existing geographic areas are primarily urban or suburban and have considerable health network capacity.

The Administration's Medi-Cal Managed Care expansion would be achieved through a phased-in process over a twelve to eighteen month period commencing in January 2007. This expansion assumes the following key aspects:

- **New Counties.** The expansion of the managed care model to 13 additional counties, including El Dorado, Imperial, Kings, Lake, Madera, Marin, Mendocino, Merced, San Benito, San Luis Obispo, Sonoma, Placer and Ventura. This would include enrolling about 262,000 parents and children. It is assumed that some of these counties would merge with an existing Geographic Managed Care Model or COHS. For example, San Luis Obispo County could be included in the Santa Barbara COHS (Santa Barbara Regional Health Authority). Details of these relationships would need to be carefully worked out.

- **Aged, Blind and Disabled Individuals (Mandatory Enrollment).** The DHS has identified 36 Medi-Cal aid codes which they would require to enroll into a managed care plan. Dual eligibles (Medicare and Medi-Cal) would not be included in this mandated group but could be voluntarily enrolled at the individual's option.

The 13 new managed care counties as referenced above would immediately enroll these individuals as part of their implementation plan along with families and children enrollees. The existing Two-Plan Model plans (located in 12 counties) and existing Geographic Managed Care plans (located in two counties) would phase-in this new population over a period of 12 months. It is assumed that about 500,000 or so aged, blind and disabled individuals would be enrolled in a managed care plan by the end of 2007-08 and beginning of 2008-09.

- **Acute and Long-Term Care Integration.** The Administration also proposes implementation of Acute and Long-Term Care Integration Projects (Projects) in Contra Costa, Orange, and San Diego counties. Dual eligibles (Medicare and Medi-Cal) living in these counties would be enrolled. The DHS states that these Projects would offer a comprehensive scope of services that manages the full continuum of health care needs, including primary care, case management, acute care, long-term care, dental services, emergency services, and drugs.

- **Capitation Rates and Assumed Local Assistance Savings.** There is considerable and ongoing debate regarding the rates paid under Medi-Cal Managed Care. Generally, federal law states that managed care rate reimbursements cannot exceed 95 percent of the fee-for-service rate. However, the DHS needs to have a comprehensive analysis done regarding their rate methodologies, particularly if mandatory enrollment of more medically involved individuals (aged, blind, disabled) is to occur.

  The DHS savings analysis simply assumes (1) a capitation rate of 95 percent of the fee-for-service equivalent cost for the 13 expansion counties, and (2) the Two-Plan Model 2003-04 fee-for-service equivalent costs for the existing counties.

  It should be noted that the DHS does not assume any local assistance savings for the expansion of managed care until 2008-09. For 2008-09 they project savings of $177.5 million ($88.7 million General Fund) based on an increased enrollment of 538,785 average monthly eligibles.

- **State Expenditures.** The DHS assumes an increase of $7.6 million ($3.3 million General Fund) in 2005-06 to hire 48 positions for this expansion component.

The Administration's proposed managed care expansion is ambitious, particularly given the state's history with past Medi-Cal managed care expansion efforts, including recent problems in Fresno County as well as in Stanislaus County.

The expansion into new counties, coupled with a mandatory enrollment of aged, blind and disabled individuals, is too much to accomplish successfully within the 12 to 18 month period designated by the Administration. This is particularly true when it comes to transitioning very medically involved individuals from providers they know and who know them, to a new network of providers.

If this expansion is to occur, comprehensive planning with impacted constituency groups, particularly stakeholders in the mental health and developmental disabilities communities, needs to occur. Ongoing involvement from local communities, as presently done in San Diego County, should also be a component requirement.

In addition, considerable fiscal issues, including resolution of complex hospital financing concerns and the development of meaningful managed care rates, need to be further studied and resolved if aged, blind and disabled individuals are to be required to be enrolled. It is well known that the COHS have been experiencing fiscal hardship in serving these very medically-involved individuals. In fact, the Budget Act of 2004 provided a three percent rate increase to the COHS due to low operating reserves and questions of fiscal solvency.

The expansion to the 13 additional counties would require considerable state and local planning efforts. Key factors for the state to evaluate health plan readiness of any managed care arrangement includes: (1) analysis of available service utilization and cost data; (2) network adequacy; (3) care coordination and carve-outs; (4) quality monitoring and improvement; (5) linkages with non-Medi-Cal services; (6) accessibility and availability of new treatment modalities; (7) community, provider and consumer input into the planning process; and (8) health plan and provider compliance with the Americans with Disabilities Act of 1990.

The inclusion of aged, blind and disabled individuals (36 new aid codes) would require an expanded state evaluation to determine health plan readiness. In conjunction with the federal CMS, the DHS would conduct readiness reviews of all Medi-Cal Managed Care plans prior to health plans becoming operational to serve this population. Specifically the DHS states that they would use the readiness model established under the COHS process.

Clearly, more detailed discussions with constituency groups and the Legislature are needed prior to any agreements for expansion.

Proposed Implementation of Medi-Cal Premiums. The Governor desires to impose monthly premium payments on Medi-Cal enrollees with family incomes above 100 percent of poverty, including aged, blind and disabled individuals. This proposal would require trailer legislation as well as federal CMS approval through a Waiver. (This Waiver would be separate from the proposed hospital financing Waiver).

A total of 550,000 people would be affected by the proposed premium. In the first year alone, the DHS assumes that 20 percent of these individuals will fail to pay and become disenrolled, and thereby add to the increasing ranks of the uninsured living in California.

Specifically, Medi-Cal enrollees with incomes above 100 percent of the federal poverty level would pay a monthly premium ($4 per month for children under 21 years, $10 per month for adults, and a maximum of $27 per month for a family) to maintain Medi-Cal coverage. For example, a family of three with a monthly earned income of $1,306 per month would pay $24 per month for coverage or $288 annually. The required premium payment represents about 1.5 to 2 percent of the total annual income for the affected individuals.

Enrollees would be dropped from Medi-Cal if they do not pay premiums for two consecutive months. If re-enrollment is pursued, the individual would be required to pay back premiums owed from the previous six months in which they were enrolled. This can become confusing due to Medi-Cal eligibility retroactivity (which is 90-days) as allowed by federal law.

The irony of this proposal is that it will make the Medi-Cal Program more costly to administer, more complex to process since counties will need to make additional computations, and result in more uninsured individuals. First, increased costs of $6.8 million (General Fund) are identified in the budget to begin implementation of the premium design process, including some

expenditures for state staff. However, this proposed increase does not capture the additional information system processing costs for making needed changes at the county level (Statewide Automated Welfare systems), which will likely be several million. (An amount has yet to be determined).

Second, for all 1931 (b) category enrollees, the Administration is changing how the existing earned income deduction will be applied solely for the purpose of determining premiums. In effect, when determining whether premiums are to be paid, a different calculation will be used (i.e., allowing for only a $90 income disregard in lieu of the $240 and ½ disregard). Therefore, the result under this revised calculation is that more families will need to pay premiums because they will be considered above 100 percent of poverty.

Further, families enrolled in the 1931 (b) category will have difficulty re-enrolling into Medi-Cal if they are disenrolled due to failure to pay a premium. These "recipients" are usually individuals who have left CalWORKS and receive Medi-Cal-only services. The federal Welfare Reform Law of 1996 specifically authorized these individuals to receive Medi-Cal services because Congress wanted to transition individuals from welfare to work. One of the barriers to this transition was receipt of health care services. As such, 1931 (b) families can have incomes up to 150 percent of poverty and be eligible for Medi-Cal. However if they loose their existing eligibility, they would be eligible for Medi-Cal only if their income level was at 100 percent of poverty or below.

Based on the fiscal information provided by the Administration it is also unclear as to what additional costs are going to be incurred for conducting Medi-Cal re-determination processing. Under SB 87 (Escutia), Statutes of 2000, as well as federal law, individuals who loose Medi-Cal eligibility under one set of criteria may be eligible for Medi-Cal enrollment under another category. As such, Medi-Cal re-determinations must be made. It is not evident if these costs were accounted for in the fiscal estimates.

Finally, it is unlikely that managed care plans would appreciate having this level of uncertainty in their Medi-Cal enrollment if individuals are cycling on and off. It is also unclear how the continuous annual enrollment of children would be affected if premiums were not paid.

C. Summary of Governor's Reductions and Augmentations for the Medi-Cal Program

- **Capitating Adult Dental Services (Medi-Cal Redesign Package).** The Governor proposes savings of $50.2 million ($25.1 million General Fund) in local assistance by restricting the amount of dental services provided to adults to $1,000 annually. An implementation date of August 1, 2005 is assumed. The DHS states that the $1,000 cap would exclude expenditures for federally mandated services provided by physicians, emergency services, and hospital costs associated with dental treatment. This proposal requires trailer legislation to enact.

  Further clarification on this proposal is needed in order to better discern what specific procedures are exempt from the cap, as well as what medically needy individuals and necessary dental services would fall above a $1,000 cap. For example, dentures cost $900 but other related dental work associated with this procedure may fall above the cap, such as related gum work or necessary medications.

  If a cap is to be implemented, consideration of a sunset date or rate adjustment factor needs to be discussed as well. Medi-Cal dental reimbursement rates are extremely low and placing

a cap in statute without consideration for out-year implications is not constructive policy. Adequate access to dental services needs to be part of the discussion.

On a technical note, the savings estimate assumed by the Administration did not account for increased expenditures associated with implementation by the state's fiscal intermediary for dental reimbursement processing. Reimbursement processing changes will need to be made if a cap is adopted. As such, the savings estimate is overstated.

With respect to state support, the DHS is seeking an increase of $165,000 ($59,000 General Fund) to hire one Associate Information Systems Analyst and a half-time Staff Counsel to implement the capitation proposal.

- **Medi-Cal Enrollee Premiums (Medi-Cal Redesign Package).** Under this proposal, Medi-Cal enrollees with incomes above the federal poverty level would pay a monthly premium ($4 per month for children under 21 years, $10 per month for adults, and a maximum of $27 per month for a family) to maintain their Medi-Cal coverage.

  This premium proposal would affect about 460,000 families and children with household incomes above 100 percent of poverty (i.e., $1,306 per month for a family of three), and 90,000 seniors and individual with disabilities with incomes above the SSI/SSP level (i.e., $812 a month for a single person and $1,437 a month for a couple, effective April 1, 2005).

  The budget assumes increased costs of $2.3 million ($650,000 General Fund) in 2005-06 for system changes and then savings of $11.1 million ($5.5 million General Fund) in 2006-07 from both the collection of premiums as well as from disenrollment (i.e., people are dropped due to lack of payment).

- **Expansion of Managed Care—More Counties and Required Enrollment (Medi-Cal Redesign).** A key component of the Governor's proposal is to expand Medi-Cal Managed Care to (1) include 13 additional counties, and (2) require new Medi-Cal enrollees who are aged, blind, and disabled to enroll in a managed care plan (mandatory enrollment). The expansion would be achieved through a phased-in process, and when fully implemented, Medi-Cal managed care plans would be in 35 counties.

  The budget proposes increased costs of $7.6 million ($3.3 million General Fund) to hire 48 new state positions for this expansion effort. The Administration projects that savings of $177 million ($89 million General Fund) will be achieved in 2008-09.

- **Restructuring Hospital Financing through a Federal Waiver (Medi-Cal Redesign Package).** The Governor is seeking a five-year hospital financing waiver that would completely restructure the $3.8 billion reimbursement system and would directly affect the financial viability of about 240 hospitals statewide. At least $900 million in existing federal funding is at risk for the state.

  This is a complex proposal and requires further in-depth discussions with the hospital industry and the federal government, along with substantive review by the Legislature prior to any enactment. Trailer bill legislation is proposed for this purpose.

  It should be noted that the budget for Medi-Cal local assistance does not reflect any changes regarding the implementation of a new Waiver for hospital financing. It assumes the same

level of funding as presently provided. The state support budget however reflects an increase of $1.5 million ($686,000 General Fund) to support 12 new state positions for implementation.

- **Federal Regulations for Funding Prenatal Care.** The budget proposes a reduction of $191.1 million (General Fund) by submitting a State Plan Amendment (SPA) under the federal Children's Health Insurance Program (S-CHIP) to obtain a 65 percent federal match for prenatal care provided to undocumented women. The cost of this vital health care is currently supported entirely by the General Fund. The proposed savings level assumes that the SPA is filed with the federal CMS by June 30, 2005 and that the state will obtain federal matching funds for both the current-year and budget year ($95.5 million each). This proposal requires trailer legislation.

  Recent federal regulations under the S-CHIP (Healthy Families Program in California) state than an unborn child (fetus) may be considered an eligible child under the program. As such, a state may elect to extend eligibility to unborn children for health benefits coverage, including prenatal care and delivery.

- **Shift of Funding Proposed for Legal Immigrants.** Due to the Governor's proposal to obtain increased federal funds through S-CHIP as noted above, and as discussed under the Access for Infants and Mothers Program below, Proposition 99 Funds become available. The Governor is proposing to use a portion of these funds—a total of $54.4 million (Proposition 99 Funds) in the current-year and $32.8 million (Proposition 99 Funds) in the budget-year—to backfill for General Fund support in the Medi-Cal Program. Specifically, these funds would be used to provide services to legal immigrants. Shifting Proposition 99 Funds in this manner may raise issues of supplanting. Proposition 99 states that funds must be used to supplement services and not supplant existing programs. The Administration contends that urgency legislation is needed in order to capture the General Fund savings in the current-year.

- **Medicare Modernization Act and Medicare Drug Benefit Implementation.** The Medicare Modernization Act of 2003 implements the Medicare Part D drug program that provides drug benefits to all Medicare enrollees, including those that are Medi-Cal eligible (i.e., dual eligibles), effective January 1, 2006. Due to this coverage, the federal government will no longer provide federal funding for Medi-Cal coverage for dual eligibles. In addition, the state must reimburse the federal government a portion of savings gained from not providing these drugs. The phased-down contribution, or "clawback", is 90 percent of the savings in 2006, based on a formula set in the Act, reduced each year until it reaches 75 percent.

  The budget assumes savings from no longer providing Part D drugs to dual eligibles at $746.8 million (General Fund). The cost of the "clawback" is estimated to be $646.6 million (General Fund). Therefore, the budget assumes a net savings of $100.2 million (General Fund). However, the DHS savings estimate does not reflect any potential state General Fund costs that may occur through the Department of Developmental Services (DDS) due to the potential need to provide selected medications to individuals with developmental disabilities.

- **Changes in Medi-Cal Due to CalWORKS Reductions.** The Governor proposes to change CalWORKS rules to reduce both the maximum aid payments (MAP) and the earned income

deduction for CalWORKS recipients, effective July 1, 2005. Therefore under this proposal, these individuals would no longer be categorically linked to CalWORKS but would be eligible for one-year of Transitional Medi-Cal (as required by federal law). After this one-year of Transitional Medi-Cal, some of these individuals would no longer be eligible for Medi-Cal. The budget does not reflect any dollars changes to Medi-Cal because the effect would not be seen until 2006-07.

However, for individuals enrolled in the 1931 (b) category of Medi-Cal eligibility, reduction of the CalWORKS MAP would lower the federal poverty threshold for recipients. As such, some individuals could lose their Medi-Cal eligibility. At this time, it is not clear from the Administration as to how many individuals this may affect.

- **Single Point of Entry—Processing Change for Children's Applications (Medi-Cal Redesign Package) Would Increase Expenditures.** Presently, joint applications (Medi-Cal and Healthy Families) are submitted to a "Single Point of Entry" where they are initially processed by the Healthy Families vendor. Medi-Cal applications that are received by the vendor must then be forwarded to a county (has to be a county or the state per federal law) for final Medi-Cal Program processing.

  Under this proposal, Medi-Cal applications for children received through the "Single Point of Entry" would now be completely processed by the vendor and then sent to the state for final "certification". The state would then send the completed Medi-Cal application to the appropriate county for ongoing case management. There are about 120,000 applications for children received annually by the vendor which would be affected.

  The table below displays the net costs to the state for this proposal which are $6.8 million ($2.1 million General Fund). This includes increased costs for 19.5 new state positions, as well as vendor contract expenditures and information system changes. It should be noted that the Healthy Families Program inadvertently did not capture the increased costs for the vendor processing in their budget. This is to be corrected in their May Revision.

Governor's Proposed Single Point of Entry	DHS (Total Fund)	DHS (General Fund)	Healthy Families Program (General Fund)
Local Assistance			
Program Savings	($210,000)	($105,000)	
County Administration	($2,182,000)	($1,091,000)	
Vendor Contract Costs	$1,150,000	$0	$1,150,000
Local Assistance	**($1,242,000)**	**($1,196,000)**	**$1,150,000**
Support Cost (19.5 new positions)	**$6,909,000**	**$2,172,000**	
Additional Costs ($2.1 million General Fund)	**$5,667,000**	**$976,000**	**$1,150,000**

Additional information needs to be obtained as to how this restructuring of the Single Point of Entry is to work, including information systems processing. On the surface, the proposal does not appear to actually streamline the process.

- **Medi-Cal to Healthy Families Program Bridge—County Performance Standards.** Existing law provides that children who are discontinued from enrollment in Medi-Cal due to increased family income are eligible to apply for enrollment into the Healthy Families Program (HFP). During the application period for the HFP, the child receives one additional month of Medi-Cal eligibility to mitigate any potential break in health care coverage.

  The Administration is proposing trailer legislation to require County Welfare Departments, who conduct the bridge process, to meet specified performance criteria regarding the enrollment of these children.

  The budget proposes a total increase of $5.3 million ($2.3 million General Fund) for this proposal. Of this amount, $827,000 ($392,000 General Fund) is for administration, including funds for three new state positions. The remaining amount is to provide health care services to about 22,500 more eligible children for the one month bridge. An implementation date of October 1, 2005 is assumed.

- **Continuation of Moratorium and Proposed New Rate Redesign for Adult Day Health Care.** The Budget Act of 2004 and corresponding health trailer legislation implemented a moratorium on the growth of new Adult Day Health Care (ADHCs) sites effective October 1, 2004. The budget proposes to continue this moratorium for savings of $45.3 million ($22.6 million General Fund). This savings level assumes continuation of the moratorium through to December 30, 2005.

  In addition, the federal CMS wants California to move the existing ADHC Program to a federal Waiver (1915 (c)). Under this new Waiver, the Administration assumes that a new rate redesign will need to occur. As such, the budget also assumes savings of $13.3 million ($6.7 million General Fund) from changes to the rates (unbundling of the rate). It should also be noted that the Administration intends to introduce policy legislation to commence with the crafting of this Waiver proposal. An implementation date of January 1, 2006 is assumed. However, this date is probably unrealistic due to the need to (1) obtain federal CMS approval, (2) potentially modify service delivery systems, and (3) modify administrative systems.

- **Quality Improvement Assessment Fee for Medi-Cal Managed Care Plans.** The budget assumes implementation of the Quality Improvement Assessment Fee for Medi-Cal Managed Care plans by July 2005 for net savings of $37 million (General Fund). However, federal CMS approval on this proposal has been languishing since the summer of 2004. As such, current year savings of $37 million (General Fund) which were assumed in the Budget Act of 2004 cannot now be achieved. In addition, certain health plans will likely need to make administrative changes in order for the fee to be appropriately implemented.

  Through this Quality Improvement Assessment, managed care plans will pay a fee to the state. The state will then obtain a federal match on the fee assessment. These funds would then be used to improve the quality of care in managed care plans through a rate enhancement, and the state would utilize the remaining amount as a General Fund offset.

- **Implementation of Skilled Nursing Home Rate Increase and Quality Assurance Fee.** The budget assumes implementation of AB 1629, Statutes of 2004, which (1) requires the DHS to provide a cost-of-living-adjustment (COLA) to nursing homes, effective August 1, 2004; (2) provides for the establishment of a facility specific rate methodology by August 1, 2005; and (3) institutes a Quality Assurance Fee to be effective by August 1, 2004. Costs to the Medi-Cal Program for the COLA and new rate methodology are expected to be $99 million (General Fund) in 2004-05 and $259.5 million (General Fund) in 2005-06.

  The DHS needs to submit a State Plan Amendment (SPA) to the federal CMS for their approval of the Quality Assurance Fee. As part of the SPA, the DHS will be seeking retroactive approval back to August 1, 2004 in order to obtain federal fund support and General Fund savings. Through the use of the Quality Assurance Fee, it is assumed that General Fund savings of $120 million for 2004-05 and $257 million for 2005-06 will be achieved.

- **Significant Changes Proposed for Third Party Liability Recovery.** The budget assumes savings of $43 million ($21.5 million General Fund) in local assistance for Medi-Cal through the enactment of trailer legislation and the hiring of 80.5 new state positions. Expenditures of $6.3 million ($1.9 million General Fund) are proposed to fund the new state positions. Annualized savings are projected to be $159.6 million ($79.8 million General Fund) once statutory measures and staff are fully in place.

  Though language has not yet been provided, it appears the Administration is seeking considerable statutory changes to amend existing laws on probate, estate recovery, personal injury, and special needs trusts, usually established for disabled individuals. The intent of these changes would be to grant the DHS broad authority to collect and recoup for Medi-Cal Program expenditures, including the ability to place liens on property. Savings of $8 million ($4.1 million General Fund) are attributable to these changes which are included in the overall savings estimate. Considerable discussion will need to occur to fully clarify the implications of these proposals to ensure that unintended consequences do not occur.

  The DHS is also requesting 80.5 new state positions for increased expenditures of $6.3 million ($1.9 million General Fund). This cost estimate assumes that all positions are hired as of July 1, 2005, which of course will not occur. Several of the positions, such as auditors and tax compliance representatives have been difficult for the DHS to hire in the past. As such, a more phased-in approach should be taken at a minimum.

  A more critical issue though is the method in which the DHS deploys staff. Several issues have been raised in the past with respect to the state's return on investment for some collection and recoupment personnel. As such, a more comprehensive assessment regarding the cost-benefit of this particular staff is needed.

- **Increased Anti-Fraud Savings.** The budget assumes savings of $71 million ($35.5 million General Fund) for 2005-06 from efforts commenced through increases in staffing provided to the DHS through the Budget Acts of 2000 and 2003. Most of this increased savings level is attributable to (1) withholding and temporarily suspending Medi-Cal reimbursement from providers when fraud is suspected, and (2) conducting special claims review of selected providers.

- **Increase for Medicare Part B Deductible.** An increase of $20 million ($10 million General Fund) is needed for the state to pay the Part B deductible of dually eligible Medi-Cal/Medicare enrollees. The federal Medicare Prescription Drug and Modernization Act of 2003 includes yearly increases to the Part B deductible. Each year, this deductible will increase according to an inflation factor determined by the federal government.

- **Continues the Disproportionate Share Hospital (DSH) Administrative Fee.** The Governor proposes to continue to redirect $85 million, obtained from intergovernmental transfers provided by public hospitals, from Disproportionate Share Hospital payments to the Health Care Deposit Fund in order to backfill for General Fund support in the Medi-Cal Program.

- **July 2004 Delayed Medi-Cal Checkwrite.** Through the Budget Act of 2004, a change was made in claims processing to delay all Medi-Cal checkwrites by one week to allow more time for review of provider claims prior to payment. This action deferred payments worth about $151 million (General Fund) to the budget year (2005-06). As such, this cost must be paid in 2005-06 as Medi-Cal returns to a 52 week checkwrites schedule.

- **Fluoride Varnish Added.** A net savings of $112,000 ($56,000 General Fund) is in the budget to add coverage provided by medical providers who see pregnant women and young children and can intervene earlier to prevent childhood tooth decay. The savings level includes the cost of providing two varnish applications.

- **Adjustments to Federally Qualified Health Clinics (FQHC) and Rural Health Centers for Prospective Payments.** An increase of $29.6 million ($14.8 million General Fund) is provided for FQHCs and RHCs that have opted to participate in the federal Prospective Payment Reimbursement (PPS) method of Medicaid (Medi-Cal) reimbursement. This increase reflects the annual Medicare Economic Index increase of 2.9 percent effective as of October 1, 2004, with another adjustment of 2.2 percent as of October 1, 2005.

Highlights for Primary Care & Family Health, Public Health & Environmental Health and County Health Services

Summary of Funding. The Governor proposes expenditures of almost $2.5 billion (total funds) for local assistance in 2005-06. This consists of: (1) $1.556 billion for Primary Care and Family Health, (2) $887.6 million for Public and Environmental Health, and (3) $52.9 million for County Health Services. The budget reflects a net increase of $22.7 million for Primary Care and Family Health and a net increase of $24.8 million (total funds) for Public and Environmental Health over the revised current-year. These proposed adjustments are discussed below.

Summary of Governor's Reductions and Augmentations for Public Health

- **AIDS Drug Assistance Program (ADAP).** Total expenditures of $263.6 million ($91.2 million General Fund, $100.8 million federal funds, and $71.6 million in drug rebates) are proposed which reflects an increase of $56.2 million ($24.6 million General Fund and $31.6 million drug rebates) over the revised current-year. The proposed increase is based on actual ADAP expenditures through June 2004 and reflects ongoing cost trends for the program.

  The principle cost factors for ADAP are steadily increasing drug prices and an increasing client caseload. Individuals enrolled in the ADAP often continue in the program for long

periods since HIV/AIDS is a chronic illness, and other public and private healthcare are limiting prescription drug coverage. It is estimated that ADAP will serve 30,446 clients in 2005-06.

- **California Rx Initiative.** The Administration proposes an increase of $4 million (General Fund) to implement a prescription drug discount program. The intent of the program would be to provide drug discounts to individuals under 300 percent of poverty who are otherwise not eligible for Medi-Cal or Medicare, or individuals in need of drugs not covered by Medicare. As amended, SB 19 (Ortiz) proposes the statutory changes needed to implement this Administration proposal.

  Of the proposed amount, $2 million (General Fund) is for state support and would be used to hire 18.5 new positions. The remaining $2 million in local assistance funds would be used for claims processing, development of a system, and pre-funding of rebased-based reimbursement for pharmacies during the initial phases of Cal Rx.

  According to the DHS, enrollment in the program would be simple and done through a pharmacy. An initial $15 enrollment fee for processing the application would be required, as well as an annual $15 re-enrollment fee. No copayments or deductibles would be required.

  To operate the program, the DHS would obtain federal CMS approval to be a State Pharmaceutical Assistance Program (SPAP). Under this federal authorization, drug manufacturers are able to discount drugs to a state without having the drug discount be considered the manufacturers "best price". The federal CMS uses the "best price" designation to determine the federal Medicaid (Medi-Cal) drug rebate amounts to be paid by the manufacturers. Without this "best price" exemption, manufacturers are very reluctant to participate in the program because increased drug rebates would have to be paid to all state Medicaid (Medi-Cal) programs. Discussions on this issue will continue as the legislation proceeds through the policy process.

- **California Obesity Initiative.** The Governor is proposing an increase of $6 million (General Fund) for an obesity prevention program. Of this amount, $3 million is for state support including two new positions and consultant contacts, and $3 million is for local assistance. The DHS contends these new funds would be used to fill in gaps and complement existing nutrition programs which are primarily federally funded.

  A "coordinating office" would be created and would report directly to the State Public Health Officer. This new office would serve as the lead entity within the DHS to facilitate all public health obesity prevention initiatives.

  Of the proposed $6 million, about $2.8 million would be used for various consultant contracts as follows:

  - $150,000 for public relations;
  - $500,000 for clearinghouse information and training;
  - $500,000 for surveillance, applied research and evaluation activities;
  - $150,000 for DHS work place wellness; and

- $1.4 million for quality improvement techniques in up to six participating health plans in Medi-Cal. The techniques would include promotion of breastfeeding, increased screening to promote healthy eating, and treatment and referral for overweight and at-risk for overweight children.

The $3 million proposed for local assistance would be allocated to 15 new and existing "community action projects". The intent of these projects would be to address both nutrition and physical activity issues in local communities and serve as role models for the state.

There are many approaches to addressing nutritional and obesity-related health care concerns. Legislative proposals have endeavored to make nutritional changes in the schools, as well as to have health-related eating disorders covered by Medi-Cal and other forms of health insurance. Not all of which have been supported by the Administration.

Due to the state's fiscal crisis, question arises as to why the Administration's obesity-related health care concerns cannot be addressed through other means. For example, The California Endowment is presently investing $26 million for a variety of efforts, including $9 million to five communities over a four-year period to combat childhood obesity. Funds from the Families First Commission (Proposition 10) could be used for some of these efforts as well. Further, the Medi-Cal Program and other health care insurance programs should be incorporating best practices within this realm already. Finally, considerable investment is already being done through the Women, Infant and Children's Supplemental Nutrition Program, the California 5 a Day Program, Project LEAN, and several other programs operated by the DHS using federal funds. If the DHS wants to administratively reorganizing these programs to make them more efficient and effective, this can be done without increased General Fund support.

- **Proposed Elimination of the Office of Binational Border Health.** The Governor proposes to eliminate the Office of Binational Border Health (OBBH) in 2005-06 for a reduction of $694,000 (General Fund). Established in 2000, the OBBH fostered binational partnerships between Mexico and California regarding all aspects of public health. These efforts included (1) assessing public health status of border and binational communities, (2) coordinating environmental health issues such as air quality, water quality, food safety and lead exposure, (3) mitigating the spread of infectious disease, and (4) promoting health policy and program development for binational cooperation.

  As noted by the DHS, the OBBH serves as the single point of coordination on border health activities. As such, with thousands of individuals crossing the border every day, coupled with the extensive exchange of commerce and goods between California and Mexico, it only makes sense to maintain the OBBH to help ensure public health safety. It is a reasonable investment.

- **Significant Shifts in Funding for Proposition 99 Supported Programs.** The Governor proposes significant shifts in Proposition 99 funded programs, along with urgency legislation, for both the current-year and budget-year. The Administration states that the purpose of the urgency legislation is to address the current-year aspects of their proposal.

  The key shifts, as highlighted in the chart below, reflect the Governor's proposal to submit a State Plan Amendment (SPA) under the federal Children's Health Insurance Program (S-

CHIP) to obtain a 65 percent federal match for prenatal care provided to women. This proposed change would unencumber a portion of Proposition 99 Funds historically expended under the Access for Infants and Mothers (AIM) Program (Also see Item 4280, below).

In addition, the Governor makes policy choices to then use a portion of the Proposition 99 Funds to backfill for General Fund savings in other health care programs.

	2004-05 Fund Shifts			2005-06 Fund Shifts		
Governor's Proposed Funding Shifts	**Proposition 99**	**General Fund**	**Federal Funds**	**Proposition 99**	**General Fund**	**Federal Funds**
Fund Access for Infants & Mothers (AIM) Program with General Fund	($71,354)	$24,974	$46,380	($78,440)	$27,454	$50,986
Technical fix for State Support	$1,100			$1,100		
Increase Every Woman Counts (cancer screening)	$8,959			$12,834		
Fund Caseload in State Hospitals for Mental Health	$9,784	($9,784)		$13,551		
Shift Expanded Access to Primary Care (EAPC) Clinic Funding				$10,000	($10,000)	
Shift Medi-Cal Legal Immigrants to Proposition 99 Funding	54,354	($54,354)		$32,793	($32,793)	
Net Total Adjustments	**$ 2,843**	**($39,164)**	**$46,380**	**($ 8,162)**	**($15,339)**	**$50,986**

As noted in the above chart, Proposition 99 Funds would be shifted from the AIM Program and used to backfill $39.2 million in General Fund support for the current-year, and $15.3 million in 2005-06. A General Fund increase of almost $25 million in the current year and $27.4 million in the budget year is then provided to AIM in order to draw down the federal S-CHIP (Title XXI) funds.

The Administration is proposing the use of General Fund support for AIM, in lieu of Proposition 99 Funds, because Proposition 99 Funds cannot be used to match federal funds unless a four-fifths vote of the Legislature is obtained for this specified purpose. It should be noted that a four-fifths vote has been achieved at least twice before for federal matching fund purposes.

Other key Proposition 99 Fund adjustments include the following:

- Uses $54.4 million (Proposition 99 Funds) in 2004-05 and $32.8 million (Proposition 99 Funds) in 2005-06 to backfill for General Fund support in the Medi-Cal Program, for services provided to legal immigrants;
- Uses $10 million (Proposition 99 Funds) to backfill for General Fund support in the Expanded Access to Primary Care (EAPC) Clinic Program;
- Increase by almost $12.8 million the Breast Cancer Early Detection Program to address caseload needs for screening services;
- Uses $9.8 million (Proposition 99 Funds) in 2004-05 and $13.5 million (Proposition 99 Funds) in 2005-06 to backfill for General Fund support in the State Hospitals operated by the Department of Mental Health; and

- Restores $1.1 million (Proposition 99 Funds) for both 2004-05 and 2005-06 to DHS state support which was omitted inadvertently during the Administration's baseline budget building process.

- **Newborn Screening Expansion**. Senate Bill 142 (Alpert), Statutes of 2004, expanded the existing Newborn Screening Program from 39 conditions to 76 conditions through the use of Tandem Mass Spectrometry. To fund this expansion effort, the DHS is requesting an increase of $15 million (Genetic Disease Testing Fund) to (1) support three new positions, and (2) purchase $14.8 million in equipment and related services, including Tandem Mass Spectrometry equipment and software, laboratory services, and information processing system modifications.

  The enabling statute provided the DHS with authority to increase fees for this program, if required for the expansion effort. As such, the DHS is proceeding with emergency regulation authority to increase the fee from $60 to a total of $78, effective January 1, 2005.

- **Battered Women Shelter Program—Underserved Services.** The Administration proposes an increase of $1.1 million ($515,000 General Fund, $235,000 Domestic Violence Training Fund and $350,000 in Nine West Settlement Funds) to restore funds used to assist shelters to serve communities of color, teens, disabled women and others that traditionally do not seek shelter services but are at high risk for domestic/intimate partner relationship violence. It should be noted that this is a direct service program and not an outreach program.

- **Federal Bioterrorism Funding—Continue State Support for 95 Positions**. The Administration is seeking an increase of $8.2 million (federal funds) to support almost 95 positions (two-year limited-term) associated with the DHS' efforts regarding bioterrorism. The existing authority for these positions expires as of June 30, 2005.

  It should be noted that the five-year bioterrorism grant provided by the Centers for Disease Control (CDC) to fund 86 of the positions will expire on August 30, 2005 and a new multi-year grant will begin. The CDC has yet to finalize specifics on the requirements for the new federal grant funding cycle. As such, it is unclear as to whether all of the requested positions can be funded under the new cycle or whether the CDC will be changing its focus for states.

- **Continues Deferral of State Support for County Medical Services Program.** The Governor proposes to suspend for another year the $20.2 million (General Fund) appropriation for the County Medical Services Program (CMSP). This $20.2 million has been suspended for the past several years since the CMSP has had reserve funds available. However, it is unknown at this time if the CMSP can continue to fully operate using only County Realignment Funds and dwindling Proposition 99 funds.

4270 California Medical Assistance Commission

The California Medical Assistance Commission (CMAC) was established in 1983 to negotiate contracts with specific services under the Medi-Cal Program on behalf of the Department of Health Services. State law and regulations govern the Commission's activities. The Commission is composed of seven voting members appointed to four-year terms.

Major Commission activities include the following:

- Negotiating contracts under the state's Selective Provider Contracting Program for Medi-Cal fee-for-service hospital inpatient services statewide;
- Negotiating contracts with hospitals for supplemental payments under the (1) Emergency Services and Supplemental Payment Program (SB 1255 funds), (2) Medi-Cal Medical Education Supplemental Payment Program, (3) Construction and Renovation Reimbursement Program (SB 1732), and (4) Small and Rural Supplemental Payment Program; and
- Developing and negotiating per capita, at-risk managed care contracts for health care services to Medi-Cal enrollees with County Organized Health Care Systems and participating Geographic Managed Care Plans.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
CA Medical Assistance Commission	**$2,604**	**$2,622**	**$18**	**0.6%**
Funding Source				
General Fund	$1,195	$1,207	$12	1.0%
Emergency Services & Supplemental Payments Fund	$111	$108	($3)	(2.7%)
Reimbursements	$1,298	$1,307	$9	0.7%

4280 Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health care coverage through private health plans to certain groups without health insurance. The MRMIB administers the: (1) Healthy Families Program, (2) Access for Infants and Mothers (AIM) and (3) Major Risk Medical Insurance Program.

The budget proposes total expenditures of $1.048 billion ($355.9 million General Fund, $620 million Federal Trust Fund, $1.7 million County Health Initiative Matching Funds, $40 million Major Risk Medical Insurance Fund, and $30.1 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. Of this total amount, $9.3 million is for state operations. This funding level represents an increase of 11.4 percent over the revised current-year. Most of this proposed net increase is due to increased enrollment into the Healthy Families Program. Significant adjustments are also proposed for the Access for Infants and Mothers (AIM) Program.

Summary of Expenditures (dollars in thousands)	**2004-05**	**2005-06**	**$ Change**	**% Change**
Program Source				
Major Risk Medical Insurance Program (including state support)	$39,144	$39,144	--	--
Access for Infants & Mother (including state support)	$123,176	$99,758	($23,418)	(19.0)
Healthy Families Program (including state support)	$806,778	$894,948	$88,170	10.9
County Health Initiative Program	$5,489	$4,663	($826)	15.0
Unallocated Reduction—State Support	--	($937)	($937)	(100)
Totals Expenditures	**$974,587**	**$1,038,513**	**$63,926**	**11.4**
Fund Sources				
General Fund	$303,286	$313,592	$10,306	3.4
Federal Funds	$617,860	$639,162	$21,302	3.4
County Health Initiative Matching Fund	$53,846	$53,846	--	--
Other Funds	$146,094	$149,707	$3,613	2.4
Total Funds	$1,121,086	$1,156,307	$35,221	3.1

Highlights for the Healthy Families Program

Summary of Funding and Enrollment. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

A total of $894.9 million ($325.2 million General Fund, $559.1 million Federal Title XXI Funds, $1 million Proposition 99 Funds, and $9.7 million in Reimbursements) is proposed for the HFP, excluding state administration. This reflects an increase of $88.2 million ($33.3 million General Fund) or 10.9 percent over the revised current-year.

The budget assumes a total enrollment of 789,301 children as of June 30, 2006, for an increase of 75,425 children over the revised current year enrollment level. This represents a budget year growth rate of 10.6 percent. This projected growth rate reflects a higher growth trend due to the (1) proposed restoration of the HFP and Medi-Cal Application Assistance Program, (2) proposed changes to the Medi-Cal to HFP Bridge process, and (3) the shift of infants from the Access for Infants and Mothers (AIM) Program to the HFP (See AIM Program discussion below).

The total enrollment figure is based on the sum of the five population segments as follows:

- Children in families up to 200 percent of poverty: 516,207 children
- Children in families between 201 to 250 percent of poverty: 190,775 children
- Children in families who are legal immigrants: 16,222 children

- Child Health Disability Prevention (CHDP) Gateway Access: 33,901 children
- Access for Infants and Mothers (AIM) Program shift 7,917 children

Other key funding assumptions are as follows:

- **Payments to Health, Dental and Vision Plans.** The payments to health, dental and vision plans remain unchanged from the Budget Act of 2004. However, it is likely that rate increases will be proposed at May Revision since the health plan contracts are opened for a reprocurement at that time. For children from one to 19 years the average cost is $91.46 per month for all benefits. For infants 0 to 1 years with family income between 200 percent and 250 percent of poverty the average cost is $214.99 per month for all benefits. For infants born to AIM moms who enrolled on or after July 1, 2004, a negotiated lump sum rate of $2,910 is used for the first two months of enrollment and then the HFP infant rate will be used for the remaining ten months.
- **Premiums for Families at 200 Percent of Poverty.** For families with incomes up to 200 percent of poverty, the average subscriber premium payment is $5.51 per child per month.
- **Premiums for Families Above 200 Percent of Poverty.** For families with incomes from 201 percent and above, the premiums will increase to $6.00 per child per month, effective July 1, 2005. This increase, as proposed by the Governor during 2004-05 budget deliberations, was included in the omnibus health trailer legislation for the Budget Act of 2004.

Summary of Governor's Reductions and Augmentations

- **Restoration of Certified Application Assistance Fees.** Historically, the HFP utilized a comprehensive outreach and enrollment process, which included the use of Certified Application Assistants (CAA), public relations, and a media campaign. These efforts, coupled with changes to the HFP application, streamlined the enrollment process and facilitated children getting HFP services. The use of CAA's was particularly effective. However due to fiscal constraints, these efforts were eliminated several years ago.

  An increase of $14.4 million ($6 million General Fund, $5.8 million federal funds and $2.6 million reimbursements) is proposed to (1) restore the CAA fees; (2) account for related increased enrollment impact; and (3) provide funding for three state positions. The specific program components and costs are as follows:

  - **Application Assistance Fees.** A total of $11.7 million (total funds) is proposed to (1) provide a $50 fee for each successfully enrolled HFP or Medi-Cal application upon request by a Certified Application Assistant, and (2) provide a $25 fee for each annual eligibility re-determination application that results in ongoing HFP coverage for an eligible subscriber.
  - **Impact on HFP Caseload Enrollment.** An increase of $2.4 million ($878,000 General Fund) is provided to account for an increase of 14,372 additional children who are anticipated to be enrolled in the HFP from the application assistance.
  - **State Administrative and Operational Support.** The MRMIB is requesting increased state support funds of $263,000 (General Fund) to support three new positions to oversee

the implementation and monitoring of the administrative vendor and CAA implementation and operation activities.

- **Medi-Cal to Healthy Families Program Bridge—County Performance Standards.** Existing law provides that children who are discontinued from enrollment in Medi-Cal due to increased family income are eligible to apply for enrollment into the Healthy Families Program (HFP). During the application period for the HFP, the child receives one additional month of Medi-Cal eligibility to mitigate any potential break in health care coverage.

  The Administration is proposing trailer legislation to require County Welfare Departments, who conduct the bridge process, to meet specified performance criteria regarding the enrollment of these children. (See Item 4260, Department of Health Services, Medi-Cal Program). An implementation date of October 1, 2005 is assumed.

  With respect to the HFP, the budget assumes that an additional 9,907 children will be enrolled by June 30, 2006 due to the enforcement of the proposed standards. As such, an increase of $3.1 million ($1.1 million General Fund) is provided to fund these children.

- **Substantial Request for State Support.** The Governor is proposing an increase of $2.2 million ($775,000 General Fund) to support 24.5 new state positions. The MRMIB contends that these positions are needed to provide increased oversight of contractor and customer service functions. This reflects a 52 percent increase in positions over the revised current year.

- **Staff for Assistance to Counties for Healthy Kids Local Initiatives.** Several counties have developed their own local programs to provide health care coverage to uninsured low-income children from 250 percent to 300 percent of poverty, including Santa Clara, Alameda, San Francisco, San Mateo, San Joaquin, San Bernardino, Riverside, Santa Cruz, Tulare, and Los Angeles. Other counties are interested, but either require technical assistance in developing their own programs or would simply like the opportunity to use local funds to "buy in" to the HFP.

  The MRMIB is requesting an increase of $261,000 ($91,000 reimbursements from the Families First Commission, and $170,000 federal funds) to support three new positions to provide technical assistance and support to local counties in the development and expansion of their locally funded Healthy Kids Programs (250 percent to 300 percent of poverty level). These positions would be used to develop a "buy in" option in which counties could transfer local funds to the HFP and have their Healthy Kids eligible children participate directly in the HFP, at no cost to the state.

- **Continues County Health Initiative Matching (CHIM) Fund Program.** The budget proposes to provide a total of $4.6 million ($1.6 million County Health Initiative Matching Fund and $3 million federal funds) for the County Health Initiative Matching Fund Program as established through AB 495, Statutes of 2001.

  Through this program, counties, local initiatives and County Organized Health Care Systems can submit proposals to receive federal matching funds to provide health insurance coverage to children with family incomes between 250 percent and 300 percent of poverty. These

matching funds are unexpended federal Title XXI State Children's Health Insurance Program (S-CHIP) funds which the state presently does not need to support the existing HFP.

The funding in the budget includes (1) the federal funding needs for the four pilot counties—Alameda, San Francisco, San Mateo, and Santa Clara--, and (2) the phase two counties—Los Angeles, Santa Cruz, and San Joaquin.

- **Continues Funding for Rural Demonstration Projects.** Through the Budget Act of 2003, the Legislature shifted Proposition 99 Funds to the HFP to restore the Rural Demonstration Projects. The Governor continues to provide $2.8 million ($1.047 million Proposition 99 Funds) for these valuable projects.

Highlights for the Access for Infants and Mothers Program

Summary of Funding and Enrollment. The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Subscribers pay premiums equal to 2 percent of the family's annual income plus $100 for the infant's second year of coverage.

Beginning July 1, 2004, infants born to AIM women will be automatically enrolled in the Healthy Families Program (HFP) at birth. Infants born during 2004-05 to AIM mothers who enrolled in AIM prior to July 1 will remain in AIM through two years of age. Therefore, infant enrollment is declining and shifting to the HFP. This is because infants will age out of the AIM Program at two years old while no new infants will be enrolled after July 1, 2004, unless the AIM mother was enrolled prior to that date. Therefore, the AIM Program is transitioning to focusing only on pregnant women and 60-day post partum health care coverage.

A total of $100.6 million ($19.2 million Perinatal Insurance Fund, $28.5 million General Fund, $52.9 million federal funds) is proposed for AIM in 2005-06. A total of 9,340 women, 8,946 first-year infants, and 72,607 second-year infants are expected to utilize AIM. This funding level reflects a reduction of $23.5 million (total funds) over the revised current-year. This reduction is due to the transition of the program as referenced.

Proposed Fund Shifts. With respect to funding sources, California is now able to obtain a 65 percent federal S-CHIP match for all AIM infants (200 percent to 300 percent of poverty) transitioned to the HFP. In addition, the Governor proposes to submit a State Plan Amendment (SPA) under the federal Children's Health Insurance Program (S-CHIP) to obtain a 65 percent federal match for prenatal care provided to women.

Both of these items result in savings to the state due to the enhanced federal funds. As such, the Administration is proposing to reduce Proposition 99 Funds, which flow through the Perinatal Insurance Fund in AIM, by $71.4 million in the current year and $80.7 million in the budget year. These Proposition 99 Funds would then be used to offset a net $54.5 million in General Fund support in various health care programs. (Also see Item 4260, Department of Health Services, Proposition 99 Funds discussion, above.)

Highlights for the Major Risk Medical Insurance Program

Summary of Funding and Enrollment. The Major Risk Medical Insurance Program (MRMIP) provides health care coverage to medically high-risk individuals as well as individuals who have been refused coverage through the health insurance market. The budget proposes total expenditures of $40 million (Major Risk Medical Insurance Fund) to serve about 7,000 individuals. The budget proposes no substantial changes to the program.

4300 Department of Developmental Services

The Department of Developmental Services (DDS) administers services in the community through 21 Regional Centers (RC) and in state Developmental Centers (DC) for persons with developmental disabilities as defined by the provisions of the Lanterman Developmental Disabilities Services Act. To be eligible for services, the disability must begin before the consumer's 18th birthday, be expected to continue indefinitely, present a significant disability and be attributable to certain medical conditions, such as mental retardation, autism, and cerebral palsy.

The purpose of the department is to: (1) ensure that individuals receive needed services; (2) ensure the optimal health, safety, and well-being of individuals served in the developmental disabilities system; (3) ensure that services provided by vendors, Regional Centers and the Developmental Centers are of high quality; (4) ensure the availability of a comprehensive array of appropriate services and supports to meet the needs of consumers and their families; (5) reduce the incidence and severity of developmental disabilities through the provision of appropriate prevention and early intervention service; and (6) ensure the services and supports are cost-effective for the state.

Summary of Total Department Funding

The budget proposes total expenditures of $3.7 billion ($2.3 billion General Fund), for a *net* increase of $166.4 million ($129.8 million General Fund) over the revised 2004-05 budget, to provide services and supports to individuals with developmental disabilities living in the community or in state Developmental Centers. The proposed $166.4 million ($129.8 million General Fund) augmentation represents an increase of 4.7 percent over the revised current year.

Of the total amount, $2.954 billion ($1.947 billion General Fund) is for services provided in the community, $699.2 million ($373.2 million General Fund) is for support of the state Developmental Centers, $36.4 million ($24.1 million General Fund) is for state headquarters administration, and $502,000 (General Fund) is for state-mandated local programs.

The Administration proposes to close Agnews Developmental Center, located in San Jose, by July 2007. As such, the budget contains adjustments to transition towards this closure, including increased investment in housing options, community-based services and supports, and related resource development. A comprehensive outline of the Agnews closure proposal is contained under the Issues Section for the Developmental Centers, below.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Source				
Community Services Program	$2,766,542	$2,953,691	$187,149	6.8
Developmental Centers	$721,541	$699,232	($22,309)	(3.1)
State Administration	$35,324	$36,427	$1,103	3.1
State Mandated Local Program	$4	$502	$498	125
Total, Program Source	$3,523,411	$3,689,852	$166,441	4.7
Funding Source				
General Fund	$2,214,571	$2,344,424	$129,853	5.9
Federal Funds	$53,908	$55,730	$1,822	3.4
Program Development Fund	$1,497	$2,268	$771	51.5
Lottery Education Fund	$2,204	$2,204	--	--
Developmental Disabilities Services	$300	$0	($300)	(100)
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	$1,250,931	$1,285,226	$34,295	2.7
Total Expenditures	$3,523,411	$3,689,852	$166,441	4.7

Highlights for Community-Based Services

Summary of Funding and Enrollment. The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.

The budget proposes expenditures of $2.953 billion ($1.9 billion General Fund) for community-based services, provided via the RCs, to serve a total of 208,000 consumers living in the community. This funding level includes $461.7 million for RC operations and $2.471 billion for the purchase of services, including funds for the Early Start Program and habilitation services.

The budget reflects a *net* overall increase of $187.1 million ($142.6 million General Fund), or 6.8 percent, over the revised current year budget for RCs. Most of this increase is attributable to: (1) an increase in enrollment — 8,765 new consumers; (2) an increase in the utilization of services by consumers; (3) restoration of a one-time $29.9 million adjustment associated with the availability of reimbursements for South Central Los Angeles Regional Center; (4) updated community placement plan funding to reflect some consumers transitioning from Agnews Developmental Center to the community; and (5) an increase for RC operations pertaining to activities associated with the Home and Community-Based Wavier.

The following chart depicts consumer enrollment for RC services over the last five-years.

Regional Center Enrollment Chart

Fiscal Year	RC Enrollment	Yearly Difference in Consumers	Percent Increase
2000-01	163,613	8,651	5.6%
2001-02	172,714	9,101	5.6%
2002-03	182,175	9,461	5.5%
2003-04	190,116	7,941	4.4%
2004-05 (Estimated)	199,255	9,139	4.8%
2005-06 (Proposed)	208,020	8,765	4.4%

The DDS notes that several key factors appear to be driving caseload growth trends, including the following:

- Improved medical care and technology has increased life expectancies for individuals with developmental disabilities;
- Significant increase in the diagnosed cases of autism, the causes of which are not yet fully understood; and
- Likelihood that medical professionals are identifying more developmentally disabled individuals at an earlier age.

Summary of Governor's Key Reductions and Augmentations for Regional Centers

- **Continues Cost Containment Actions Taken in the Budget Acts of 2003 and 2004.** The Governor proposes to continue several cost containment actions enacted as part of the Budget Acts of 2003 and 2004. These include: (1) $10 million ($7 million General Fund) in unallocated reductions for the Purchase Of Services; (2) a Day Program rate freeze; (3) a contract services rate freeze; (4) a Community Care Facility rate freeze; (5) elimination of the SSI/SSP pass-through to Community Care Facilities (CCFs); (6) a delay in intake and assessment (from 60 days to 120 days); (7) non-community placement plan start-up suspension; (8) an unallocated reduction of $6.5 million to RC Operations; and (9) implementation of a Family Cost Participation Program (also see below).

  The following table provides a summary of the fiscal affects of these prior year actions as they pertain to the revised current-year funding and budget year funding.

Summary Table of Previous Cost Containment

Previously Implemented Cost Containment Measures	Revised 2004-05 Total	Revised 2004-05 General Fund	2005-06 Total	2005-06 General Fund
RC Operations Total	**($10,353,000)**	**($10,353,000)**	**($10,011,000)**	**($10,011,000)**
1. Delay in Assessment (60 – 120 Days)	(4,465,000)	(4,465,000)	(4,465,000)	(4,465,000)
2. Family Cost Participation	570,000	570,000	912,000	912,000
3. 2004-05 Unallocated Amount	(6,458,000)	(6,458,000)	(6,458,000)	(6,458,000)
RC Purchase of Services Total	**($70,037,000)**	**($60,498,000)**	**($85,997,000)**	**($73,421,000)**
1. Day Program Rate Freeze	(5,771,000)	(4,184,000)	(16,709,000)	(!2,114,000)
2. Contract Services Rate Freeze	(11,375,000)	(8,963,000)	(11,565,000)	(9,193,000)
3. CCF Rate Freeze	(12,389,000)	(7,433,000)	(12,389,000)	(7,433,000)
4. Elimination of the SSI/SSP Pass-Through to CCFs	(1,461,000)	(877,000)	(1,631,000)	(978,000)
5. Non-Community Placement Start-up Suspension	(5,962,000)	(5,962,000)	(5,962,000)	(5,962,000)
6. Family Cost Participation	(570,000)	(570,000)	(3,143,000)	(3,143,000)
7. Reduced Growth Trend	(11,357,000)	(11,357,000)	(11,357,000)	(11,357,000)
8. 2003-04 Unallocated Reduction	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
9. 2004-05 Unallocated Reduction	(7,000,000)	(7,000,000)	(7,000,000)	(7,000,000)
10 Revision of Eligibility Definition	(4,152,000)	(4,152,000)	(6,241,000)	(6,241,000)
TOTALS	**($80,390,000)**	**($70,851,000)**	**($96,008,000)**	**($83,432,000)**

- **New Cost Containment—Regional Center Purchase of Services Requirements.** The Governor proposes substantial policy changes through trailer bill legislation to grant Regional Centers (RCs) broad authority for reducing Purchase of Services (POS) expenditures. It is assumed that RCs would apply these new requirements at the time of an individual's program plan (IPP) development or scheduled review. Savings of $14 million ($10.5 million General Fund) are assumed for 2005-06 with total savings of at least $41.9 million ($31.4 million General Fund) annually once the phase-in has been completed. It should be noted that the Legislature has rejected similar proposals for the past three years. This proposal is discussed in more detail below (See Issues Section). The Legislature has yet to receive any trailer bill language on this issue.

  The Governor is also proposing an augmentation of $6.2 million (total funds) to RC operations for implementation of the proposed POS requirements. This increased funding is to be used as follows: (1) 52 new positions; (2) $302,000 for office rent; (3) $500,000 for increased administrative law hearings; (4) $240,000 for annual statements of POS; and (5) $170,000 in other operating expenditures.

- **Implementation of the Family Cost Participation Program.** As required in the Budget Act of 2004, the Family Cost Participation Program (FCP Program) was implemented on January 1, 2005 under emergency regulation authority. Savings of $3.3 million ($2.6 million General Fund) are assumed in the budget year from this action. A report on the status of implementation is due to the Legislature by April 1, 2005.

  Under this program parents of children between the ages of 3 through 17 years who live in their parents' home, receive certain services purchased through an RC, and are not Medi-Cal

eligible, will be required to pay a cost participation amount based on a sliding fee scale. The services for which a fee is to be paid include the following service categories: In-Home Respite, Out-of-Home Respite, and Miscellaneous (recreational therapists, speech pathologists, mobility training specialists and counseling).

- **Adjustments in RC Expenditures for Agnews Developmental Center.** The Governor proposes to close Agnews Developmental Center, located in San Jose, by July 2007. As such, the budget contains adjustments to transition towards this closure, including increased investment in housing options, community-based services and supports, and related resource development. The current year provides $11.1 million (General Fund) in one-time funds to facilitate the development of community-based living options for current residents of Agnews. A plan for the expenditure of these one-time funds was submitted to the Joint Legislative Budget Committee on January 10, 2005.

  For 2005-06, an increase of $6.6 million (total funds) is proposed. This amount includes $349,000 for increased RC staff for the three Bay Area RCs, including dental coordinators, nurse coordinators, and client program coordinators. The remaining $6.2 million is for community placement plan services in the Purchase of Services category for functions such as resource development, and services and supports in the community for individuals recently transitioned from Agnews.

  A more complete discussion on the proposed Agnews Developmental Center closure is in the Developmental Centers Section, below.

- **Expansion of Self-Directed Services Model through the Independence Plus Waiver.** As authorized through trailer legislation for the Budget Act of 2003, the DDS is proceeding with a federal Independence Plus Waiver to expand the Self-Directed Services Model. The Self-Directed Services Model is an alternative service model that enables participants to receive an individual budget allocation that will result in a 10 percent cost reduction in the aggregate to the state. Five percent of this savings will be set aside for participating consumers' unanticipated needs, and the remaining five percent is savings to the General Fund. It is assumed that 800 consumers will receive self-directed services in 2005-06 for savings of $300,000 (General Fund).

  The budget is also requesting an increase of $500,000 ($300,000 General Fund) to fund 5 positions at DDS Headquarters to implement and monitor the Independence Plus Waiver and the Self-Directed Services Model.

- **Continuation of Eligibility Definition.** Through statutory changes enacted as part of the Governor's Budget Act of 2003, California now uses the federal standard for "substantial disability" in determining Lanterman Developmental Disabilities Services Act eligibility criteria. This revision requires a person to have deficits in at least three of the seven life domains, including learning, self-care, economic self-sufficiency, and others. The budget assumes that 501 individuals applying for RC services will not now be eligible for them for estimated savings of $2.6 million (General Fund).

- **Augmentation for Regional Center Operations for the Home and Community-Based Waiver.** Through the revised current-year budget, the Administration is proposing to provide an increase of $10.6 million (General Fund), obtained from increased

reimbursements from the Home and Community-Based Waiver, to provide additional resources for RC Operations. The DDS states that through RC contract language they will instruct the RCs to utilize these additional resources for increased staff and quality assurance activities for maintaining the Home and Community-Based Waiver. The budget proposes to continue this adjustment into 2005-06.

- **Implementation of Medicare Part D Prescription Drug Benefit.** In 2003, the President's new federal Medicare Prescription Drug Improvement and Modernization Act (Act) was approved by Congress. Under this Act, beginning January 1, 2006, coverage for prescription medications will shift from Medicaid (Medi-Cal) to Medicare for individuals who are eligible under both programs (i.e., dual eligibles). No transitional grace period will be provided. As such, in order to enable all DDS consumers--RC and DC-- to participate in this new benefit program, the Administration will need to develop a funding mechanism based on Medicare Advantage Prescription Drug Plans. The Governor's budget contains no detail as to how the DDS will proceed with this new program. They do note that the state will realize both additional revenues and additional costs, but the amounts are unknown at this time. This will be a significant May Revision issue.

- **Status of Rate Standardization Project.** The Administration notes they are working to address the issue of standardizing negotiated rates for vendors who provide services to consumers in the community. Though no detail is provided in the Governor's budget, they note that proposals may be forthcoming in his May Revision.

- **Transition For Vendor Audits:** Through the Budget Act of 2004, the Legislature directed the DDS to undertake joint responsibility with RCs for auditing vendors providing services to RC consumers. As such, part of the auditing function was transferred from the RCs to the DDS. This created a dual system for auditing vendors. Unfortunately, the Governor's budget does not identify any 2005-06 savings from this activity though the Legislature and the Legislative Analyst's Office expected at least several million in savings from this effort.

- **California Developmental Disabilities Information System (CADDIS) Project Delayed Again—Loss of Federal Funds.** The CADDIS is an integrated case management and fiscal accounting system that is being implemented by the RCs at the direction of the DDS. This new system is needed in order to enhance the receipt of federal funds, as well as to obtain more accurate and necessary consumer data regarding needs and services.

  The target date for implementation had been June 2004. This date was pushed back to December 2004 through the Budget Act of 2004. Now the DDS states that implementation will not occur until May 2006. This delay will result in a loss of $30.3 million in federal funds ($10.4 million in 2004-05 and $19.9 million in 2005-06).

- **Quality Management System—Headquarters' Support.** Consistent with federal government requirements promulgated by the Center for Medicare and Medicaid Services (CMS), the DDS is seeking an increase of $500,000 ($300,000 General Fund) to support four positions to develop a statewide Quality Management System to be incorporated into all aspects of the developmental disabilities service system.

- **Title XX Social Services Block Grant Fund Shift.** The Governor proposes to shift $60 million in federal Title XX Social Services Block Grant funds and delete a like amount in

General Fund support for Regional Center services. The federal Temporary Assistance for Needy Families (TANF) law allows the state to transfer up to 10 percent of its TANF funds to Title XX. The transferred TANF funds must be spent on children or their families with incomes below 200 percent of poverty. Once transferred, the funds may be used to support any programs that meet the stated Title XX goals, including preventing inappropriate institutional care. It should be noted that the proposed $60 million in Title XX funds may be needed to fund baseline needs in the CalWORKS Program.

Issues for Community-Based Services

1. New Cost Containment—Regional Center Purchase of Services Requirements.

Summary of Phase-In and Requirements. The Governor proposes substantial policy changes through trailer bill legislation to grant Regional Centers (RCs) broad authority for reducing Purchase of Services (POS) expenditures. It is assumed that RCs would apply these new requirements at the time of an individual's program plan (IPP) development or scheduled review.

An individual's IPP is to be reviewed no less than once every three years. As such, the budget assumes that one-third of the RC population (208,000 people) would have their plans reviewed each year. The proposed cumulative savings from these new requirements are as follows:

Fiscal Year and Cumulative Effect	Total POS Reduction From Requirements	Proposed General Fund Savings
2005-06		
• One-third of population is reviewed.	$14 million	$10.5 million
2006-07		
• Continue 2005-06 savings and review next one-third of population.	$28 million	$20.9 million
2007-08		
• Continue 2005-06 and 2006-07 savings and review next one-third of population.	$41.9 million	$31.4 million

The Governor's proposed POS requirements and their anticipated component savings are as follows:

- **Vendor Selection Based On Lowest Cost:** The cost of providing services by different vendors, if available, would be reviewed by an RC and the least costly vendor who is able to meet the consumer's needs, as identified in the consumer's IPP, would be selected. This provision is assumed to save $25 million ($18.4 million General Fund) annually when fully implemented.

- **Statement of RC Services:** RCs would annually provide the consumer or their parent/guardian a statement of RC purchased services and supports. This statement would include the type, unit, and cost of the services and supports. This provision of the guidelines is intended to serve as a validation that the described services and supports are indeed being

provided to the consumer by the designated vendor. This guideline is intended to save $6.2 million ($4.6 million General Fund) annually when fully implemented.

- **Directs RCs to Adhere to Existing Laws and Regulations In Purchasing Services:** RCs would be directed to establish internal processes to ensure that (1) their staff is following all laws and regulations when purchasing services and supports for consumers, and (2) other services, such as generic services provided by other agencies in the community, are pursued and used prior to authorizing the expenditure of RC funds for consumers. It is anticipated that $6.2 million ($4.6 million General Fund) in savings would be obtained annually when fully implemented.

- **Services to a Minor Child:** Under the Governor's proposal, legislation would be enacted to require RCs to take into account the family's responsibility for providing similar services to a minor child without disabilities when determining which services or supports would be purchased by the RC for the child. It is assumed that $2.7 million ($2.4 million General Fund) would be achieved annually when fully implemented.

- **RC Clinical Review:** RCs would be required to have a clinician review all requests for certain services and supports prior to the RC authorizing their purchase for the consumer. This review would pertain to certain supplemental program supports, assistive technology and environmental adaptations, behavioral services, specialized medical or dental services, and therapeutic services. The Administration assumes savings of $1 million ($750,000 General Fund) annually when fully implemented.

- **Use of Group Modality:** RCs would be directed to give preference for purchasing a service or support using a group modality, in lieu of an individual intervention, if a consumer's needs, as identified in their IPP, could be met using a group modality for the following services: Behavioral Services, Social and Recreation Activities, and Non-Medical Therapy Services. This provision is assumed to save $800,000 annually when fully implemented.

Comments. The Legislature is still pending receipt of proposed trailer legislation for these new POS requirements from the Administration. However, the outline provided thus far appears to be quite similar to proposals made by the Administration, and rejected by the Legislature, over the course of the last three years.

As such, a key concern is how would a consumer's individual program plan (IPP) be affected by these requirements? Services included in the consumer's IPP are considered to be entitlements (court ruling). Therefore, at a minimum, it would appear that at least a portion of the proposed POS requirements would potentially be found to be illegal.

It is equally unclear at this time what interaction this proposal may have with the Administration's proposed Medi-Cal Redesign which would mandate the enrollment of aged, blind and disabled individuals into a Medi-Cal Managed Care plan. Under existing state statue, if a "generic" service (meaning an existing public service or program) cannot meet the need of the individual with developmental disabilities, then an RC will need to purchase the service if the service in question is identified in the individual's IPP. Therefore, RCs may need to eventually purchase more specialized medical care or behavioral services, but only if they are contained within the IPP.

As such, the potential for cost-shifting, conflicts in policy, and potential risks to consumer health and safety could be significant. Considerable discussion needs to occur, and the implications of both the short-term and longer-term effects of these combined proposals need to be clearly understood.

As specifics begin to come forth from the Administration it will be imperative for the Legislature to maintain both access and consumer choice to an array of services and supports, and to maintain legislative authority in order to preserve the integrity of the overall program. Any statutory language will need to be crafted carefully and thoughtfully with the involvement of the individuals and families who receive the services and with the various businesses that provide the services. Consumer health and safety issues will also be paramount.

Highlights for the State Developmental Centers

Summary of Funding and Enrollment. The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma. Porterville is unique in that it provides forensic services in a secure setting. In addition, the department leases Sierra Vista, a 54-bed facility located in Yuba City, and Canyon Springs, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

The revised current-year budget reflects total expenditures of $721.5 million ($387.1 million General Fund) for the DCs, or an increase of $16.4 million ($8.3 million General Fund) over the Budget Act of 2004. Most of this increase is due to rising employee compensation costs.

The budget proposes expenditures of $699.2 million ($373.2 million General Fund), excluding state support, to serve 3,071 residents who reside in the state DC system. This reflects a caseload decrease of 236 residents, or 7.1 percent, and a net reduction of $22.3 million, or 3.1 percent, as compared to the revised 2004-05 budget.

The net reduction of $22.3 million is the result of (1) a reduction in state staff due to the continuing decline in resident population; (2) an increase in operating expenses due to price increases; and (3) an unallocated reduction of $3.724 million, as directed by the Governor.

The Administration proposes to close Agnews Developmental Center, located in San Jose, by July 2007. As such, the budget contains adjustments to transition towards this closure. This issue is discussed further below.

According to recent DDS data, the average cost per person residing at a DC is about $228,000 annually. This figure varies across the DCs due to differences associated with resident medical and behavioral needs, overall resident population size, staffing requirements, fixed facility costs and related factors. In addition, due to the level of fixed costs at the DCs and the need to maintain minimum staffing levels, the cost per resident will continue to increase as the total resident population decreases.

Developmental Center Residents			
Fiscal Year	DC Residents	Yearly Difference in Residents	Percent Decrease
2000-01	3,768		
2001-02	3,676	-92	2.4%
2002-03	3,583	-93	2.5%
2003-04	3,417	-166	4.6%
2004-05 (Estimated)	3,307	-110	3.2%
2005-06 (Proposed)	3,071	-236	7.1%

Summary of Governor's Key Reductions and Augmentations for Developmental Centers

- **Developmental Center Resident Population.** The Governor proposes a decrease of $25.1 million ($13.7 million General Fund) and 397 positions resulting from a projected net decline in population of 236 residents (from 3,307 residents to 3,071 residents).
- **Governor's Unallocated Reduction.** The Governor has directed state departments to make unallocated reductions across several program areas. For the DCs, a reduction of $3.7 million ($2.1 million General Fund) was designated. At this time it is not clear how this reduction may affect services.
- **Closure Plan for Agnews Developmental Center.** The Administration proposes to close Agnews Developmental Center, located in San Jose, by July 2007. The Administration provided the Legislature with a closure plan, as required by statute, on January 10, 2005. The budget reflects a net decrease in the DC budget of $2.8 million General Fund. This issue is discussed more comprehensively below in the Issues Section.
- **Life Services Alternative Homes for Agnews Transition.** The DDS continues to provide $814,000 (total funds) for the Life Services Alternative Homes (LSA). These homes were established to enable individuals with challenging needs that are placed out of, or deflected from, admission to Agnews DC to be served in the community. Managing the LSA Homes involves collaboration between the DDS, San Andreas RC, the Housing Choices Coalition, Agnews DC and the LSA non-profit contractor. These homes will provide 15 beds in three five-bed facilities. Staff from the Agnews DC provides services to the individuals residing in the LSA homes.
- **Janitorial Contract Costs.** An increase of $2.2 million ($1.3 million General Fund) is requested to adjust this contract as directed by the Department of Personnel Administration using their blended rate methodology for contracted benefits.

Issues for the Developmental Centers

1. Closure Plan for Agnews Developmental Center (Plan).

Background—Why Close by 2007? The Administration's closure Plan calls for closure by June 30, 2007. The Plan reflects the results of a broad based advisory committee, along with six planning teams and numerous work groups, which provided input to the DDS in planning the

closure. These efforts first commenced in early 2003, since at that time, it was anticipated closure would occur by June 2005.

The decision to postpone the closure date was based on the limited capacity of the Bay Area community to provide the range and types of services needed to transition residents living at Agnews by 2005. Specifically, the Administration was proposing to place up to 100 residents at Lanterman DC and up to 200 individuals at Sonoma DC in order to meet the original 2005 closure date. Further, in many situations, multiple moves of the residents would have been needed. As such, the Legislature redirected capital outlay funds of $11.1 million (one-time only) in the Budget Act of 2004 to facilitate the development of community-based living options for the current residents of Agnews.

Background—Demographics of Residents. As of June 30, 2004, Agnews had 376 residents. Of these residents, over 90 percent are served by one of the three Bay Area RCs (17 percent by Golden Gate; 22 percent by East Bay; and 52 percent by San Andreas). Over 55 percent of the residents have lived at Agnews for more than 20 years. The DDS notes that in recent discussions with residents and their families, almost two-thirds of the persons interviewed identified the Bay Area as being their location of choice.

About 80 percent of the residents have severe to profound mental retardation, with the majority of the individuals having more than one developmental disability including epilepsy, cerebral palsy, and autism. In addition, one-third of the residents have a diagnosed mental disorder, and over one-fourth of the population requires medication for psychiatric conditions or behavioral challenges.

The Agnews population is also aging, with 65 percent of the residents being over the age of 40, and 8 percent at 65 years or older.

Background--Agnews Land (East Campus). Agnews currently resides on 87 acres in San Jose. Other acreage once associated with the DC has been sold or transferred in previous years. There are 51 buildings on the campus, comprising 692,800 gross square feet of space. A cogeneration plant provides energy to Agnews and markets electricity through a complex agreement with a third party. The agreement expires in 2020.

The Department of General Services (DGS) is the lead agency in facilitating the future use of the real estate, existing leases, structures and infrastructure of the campus. The DDS has responsibility for maintaining the property for up to one-year from the date or closure, or until the DGS transfers or otherwise disposes of the asset.

Key Components of Plan. The basic principle underlying the Plan is to provide opportunities for the residents of Agnews to remain in their home communities within the greater Bay Area. To achieve this objective, the Plan provides for the development of new resources and innovative programs. Key components are as follows:

- **Bay Area Unified Community Placement Plan.** The three RCs (Golden Gate, San Andreas, and East Bay) have a unified plan for community placement whereby extensive individual assessment and person-centered planning is conducted. A regional approach (greater Bay Area) is then taken for the planning and development of services and supports for individuals with developmental disabilities. By taking a unified approach to housing, health services, quality assurance, and residential living options, resources can be used more

efficiently and effectively, and more individuals can be transitioned to the community, when appropriate. The RCs note that intensive planning is in process to transition about 90 individuals to the community in 2005-06.

- **Housing Development.** Through the use of $11.1 million from the Budget Act of 2004 and the passage of AB 2100, Statutes of 2004, the DDS proposes to authorize the Bay Area RCs to fund predevelopment costs (escrow deposit, environmental impact, various fees and related matters) to establish a permanent stock of housing for individuals with developmental disabilities transitioning from Agnews. The Bay Area RCs will contract with a local non-profit housing coalition to administer the fund. Housing will be developed using a lease/purchase/donate model facilitated by the Bay Area RCs and the local housing coalition.

- **Family Teaching Home Model:** AB 2100, Statutes of 2004, also added a new "Family Teaching Home" model to the list of residential living options. This new model is designed to support up to three adults with developmental disabilities by having a "teaching family" living next door (usually using a duplex). The teaching family manages the individuals' home and provides direct support when needed. Wrap-around services, such as work and day program supports, are also part of the model.

- **Pilot Projects for Adults with Special Health Care Needs.** Through policy legislation, the DDS is proposing to establish a new pilot residential project designed for individuals with special health care needs and intensive support needs. This pilot would be a join venture with the Department of Social Services (DSS) and would serve up to 120 adults, with no more than five adults residing in each facility. This pilot would be limited to individuals currently residing at Agnews.

- **Use of State Employees to Facilitate Transition.** The DDS proposes to use up to 200 Agnew's employees to augment and enhance services provided in the community. These state employees would be used to provide direct care, resolve crises, train and provide technical assistance to new providers, and other functions. The employees would operate under special contracts between the state and either an RC or service provider. These arrangements would continue through 2009. DDS is pursuing policy legislation for this purpose.

- **New Quality Management System.** A new Quality Management System is being developed by the DDS which is based on a federal Center for Medicare and Medicaid (CMS) model. This new system is to be interwoven with existing monitoring and follow-up visits which are presently conducted. The DDS states that this system establishes clear indicators of performance for all state employees and providers to share responsibility in assuring that outcomes are met successful.

4440 Department of Mental Health

The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of four State Hospitals—Atascadero, Metropolitan, Napa and Patton--, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison. The department provides hospital services to civilly committed patients under contract with County Mental

Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Though the department sets overall policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992.

Specifically counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available, (2) the Medi-Cal Mental Health Managed Care Program, (3) the Early Periodic Screening Diagnosis and Testing (EPSDT) Program for adolescents, and (4) mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families.

The budget proposes expenditures of $2.747 billion ($1 billion General Fund) for mental health services, for an overall increase of $78.1 million, or 8.2 percent over the revised current year. This General Fund increase is the net result of significant adjustments in the State Hospital budget as well as the funding of local mandates after three years of suspended payments.

As noted in the table below, $1.861 billion is for local assistance, $875.2 million is for the State Hospitals, and $12.5 million (General Fund) is for state mandated local programs. In addition to the above expenditures, the DMH is also proposing capital outlay expenditures of $38.5 million ($5.4 million General Fund).

It should be noted that revenues generated from the passage of Proposition 63 are not yet reflected in the budget. An expenditure plan from the Administration, as required by the proposition, will be forthcoming at the May Revision. Projected revenues to be available for expenditure are $254 million in 2004-05 and $683 million for 2005-06. These funds are a continuous appropriation and are therefore, not subject to annual Budget Act appropriation.

In addition, it is estimated that almost $1.220 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Source				
Community Services Program	$1,773,472	$1,860,792	$87,320	4.9
Long Term Care Services	$802,270	$875,193	$72,923	9.1
Unallocated Reduction—State Support		($949)	($949)	(100)
State Mandated Local Programs	$7	$12,509	$12,502	1,786
Total, Program Source	$2,575,749	$2,747,545	$171,796	6.7
Funding Source				
General Fund	$956,640	$1,034,692	$78,052	8.2
General Fund, Proposition 98	$8,400	$8,400	--	--
Proposition 99 Funds (Hospital Acct)	$16,724	$20,491	$3,767	22.5
Federal Funds	$61,872	$61,936	$64	(0.1)
Reimbursements	$1,529,525	$1,619,810	$90,285	5.9
Traumatic Brain Injury Fund	$1,432	$1,060	($372)	26.0
CA State Lottery Education Fund	$1,156	$1,156	--	--
Total Department	$2,575,749	$2,747,545	$171,796	6.7

Highlights for Community-Based Mental Health Services

Summary of Funding for Community-Based Mental Health Services. The budget proposes expenditures of $1.861 billion (total funds) for community-based local assistance, including Medi-Cal Mental Health Managed Care, Early Periodic Screening Diagnosis and Treatment Program, applicable state support, the Conditional Release Program and related community-based programs.

This reflects a *net* increase of $87.3 million (total funds) as compared to the revised current-year. This increase is primarily due to caseload and utilization of services adjustments in the baseline EPSDT Program and Mental Health Managed Care, as well as an adjustment to the San Mateo Field Test Project.

In addition, it is estimated that $1.220 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. This 2005-06 realignment amount reflects an increase of $19.4 million, or about 1.6 percent more than the current year. This estimate is based on the following revenue estimates:

- Sales Tax $835,285,000
- Vehicle License Fee Account $365,679,000
- Vehicle License Fee Growth Account $ 19,474,000

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year's total. Any realignment revenues above that amount are placed into a growth account. The first claim on the distribution of growth funds are caseload-driven social services programs. Any remaining growth (i.e., "general" growth) in revenues is then distributed according to a formula in statute.

Summary of Governor's Reductions and Augmentations

- **Proposition 63 the Mental Health Services Act.** In November 2004, voters approved this proposition which will provide a dedicated funding source for public mental health services from the personal income tax revenues of individuals whose adjusted gross income exceeds $1 million annually.

  For the current-year, projected revenues to be deposited into the Mental Health Services Account are $254 million, and for 2005-06 estimated revenues are $683 million. An expenditure plan from the Administration, as required by the proposition, will be forthcoming at the Governor's May Revision. It should also be noted that the Mental Health Services Account is a special fund which provides for a continuous appropriation and is not therefore contingent upon an annual Budget Act appropriation.

- **Activation of Coalinga State Hospital.** The Governor proposes an increase of $65.7 million (General Fund) for the continuing activation of Coalinga State Hospital which is scheduled to open in September 2005 with a capacity of 250 beds. Sexually Violent Predators (SVPs) currently at Atascadero State Hospital will be transferred to Coalinga. Of the amount proposed, $38.3 million is to support about 660 level-of-care positions, $8.7 million is to support 140 non-level-of-care positions and $18.7 million is to support operating expenses including relocation costs for state employees choosing to transfer to Coalinga.

- **Proposed Shift of Pre-commitment Sexually Violent Predators.** The Governor proposes trailer legislation to amend statute to require individuals currently housed at a State Hospital awaiting completion of their SVP commitment proceeding (pre-commitment), be transferred to local custody (county jail or retention) until they are actually committed. The budget assumes savings of $9.2 million (General Fund) from this action.

- **Restructure the Treatment of Sexually Violent Predators.** The Governor proposes trailer legislation to amend statute to restructure the supervision and treatment services of SVP patients in State Hospitals, including the establishment of a new secure SVP residential licensing category. The budget assumes savings of $6 million (General Fund) in 2005-06 and $11 million (General Fund) in 2006-07.

- **Increased Staff for Youth and Skilled Nursing Facilities at Metropolitan State Hospital and Napa State Hospital.** An increase of $3.6 million (County Realignment Funds) is proposed to increase staff resources at the Youth Program located at Metropolitan State Hospital, and for the Skilled Nursing Program at Napa State Hospital. These staff adjustments are based on patient acuity and needs.

- **Early Periodic Screening Diagnosis and Treatment Program (EPSDT).** The Governor proposes a *net* increase of $47.5 million ($27.2 million General Fund) for the Early Periodic Screening Diagnosis and Treatment Program (EPSDT).

- **State Mandates on Local Programs and AB 3632 Services.** With the passage of Proposition 1A, the state is now obligated to reinstitute payments to local agencies for state mandated costs. A General Fund increase of $12.5 million is proposed for payments to local agencies for mental health related mandates.

  However, the Governor continues to suspend payments to counties for mental health services provided to special education students (so called AB 3632 services) even though these services are mandated per the federal Individuals with Disabilities Education Act (IDEA).

  AB 3632, Statutes of 1984, shifted responsibility for proving mental health treatment services to special education pupils from Local Education Agencies (LEAs) to County Mental Health Plans (County MHPs). However, appropriate funding was not shifted to the County MHPs to cover these services. As such County MHPs have cobbled together a stream of funds including County Realignment Funds, state mandate claims, and more recently $69 million in federal funds obtained from the Department of Education, to meet the needs of these students.

  The Governor's budget does continue the $69 million in federal IDEA funds as contained in the DOE appropriation, as well as $31 million (General Fund) to LEAs for mental health related services. However, County MHPs are still under funded going into the budget year, as well as being owed for some past state mandate claims.

  It is estimated that County MHPs provide AB 3632 services to about 27,000 students each year for a total annual cost of $120 million.

- **Mental Health Managed Care Program.** A net General Fund increase of $5.7 million for both inpatient and specialty mental health services is being proposed. Most of this adjustment is due to caseload increases.